



APPROVED 07-02-09

**AUDIT COMMITTEE
REGULAR MEETING
10:00 a.m., Monday, May 18, 2009
City Hall, Kiva Conference Room
3939 North Drinkwater Blvd.
Scottsdale, AZ 85251**

PRESENT: Councilman Robert Littlefield, Chair
Councilwoman Suzanne Klapp

ABSENT: Vice Mayor Ron McCullagh (Resigned)

STAFF: Brent Stockwell, City Auditor's Office
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Kyla Anderson, City Auditor's Office
Honorable B. Monte Morgan, City Court
Janet Cornell, City Court
Daniel Edwards, City Court
Jack Miller, City Court
Harold Stewart, Economic Vitality
Kathy O'Connor, Economic Vitality
Scott McCarty, Financial Services
Richard Chess, Financial Services
Debora Johnson, Financial Services
Ruben Hernandez, Financial Services
Mary O'Connor, Transportation
Scott Gray, Transportation
Kim Hanna, Transportation

OTHERS: Rachel Sacco, SCVB

CALL TO ORDER/ROLL CALL

Councilman Littlefield called the regular meeting to order a 10:03 A.M. A roll call confirmed the presence of Committee Members as noted above.

1. Approval of April 27, 2009 Meeting Minutes

Chair Littlefield announced that Vice Mayor McCullagh has resigned from the Committee, and a replacement has not yet been appointed.

COUNCILWOMAN KLAPP MOVED TO APPROVE THE REGULAR MEETING MINUTES OF APRIL 27, 2009. COUNCILMAN ROBERT LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF TWO (2) TO ZERO (0). VICE MAYOR RON MCCULLAGH ABSENT (RESIGNED FROM AUDIT COMMITTEE).

2. Discussion of Audit Report No. 0906, Collection of Delinquent Funds

Assistant City Auditor Lisa Gurtler stated this audit consisted of three collection programs within the City: City Court, Revenue Recovery, and the Scottsdale Airport. Management has accepted all findings, with the exception of Item No. 10 within Revenue Recovery. This item is still under review by the City Attorney's Office, and has to do with A.R.S. and the penalties applied to delinquent utility accounts. They will complete their review by July, at which time they will let Financial Services know whether State Statute preempts City Code.

3. Discussion of Audit Report No. 0909, Scottsdale Convention & Visitors Bureau Agreement

Assistant City Auditor Joyce Gilbride indicated this was an audit of the Destination Marketing Agreement between the City and the Scottsdale Convention & Visitors Bureau. The objective was to evaluate the CVB's compliance with agreement terms, and management's oversight of the agreement.

Overall, the CVB was in compliance with the terms of the agreement. The audit did find some minor areas for improvement in contract administration and the length of the term of the contract.

In response to an inquiry by Committee Member Klapp, Ms. Gilbride indicated the City currently has a five-year sole source agreement. They are not necessarily recommending a five-year agreement. Tourism and Development Manager Kathy O'Connor explained the sole source agreement has to do with the purchasing arrangement. The auditor found that some destination marketing organizations have multi-year agreements, which allows them to plan for the future. This is not unusual in the industry, and allows the City to plan more efficiently.

Ms. O'Connor explained that this is funded annually, and Chair Littlefield clarified that no public entity in Arizona can guarantee funding beyond the current year. Ms. O'Connor indicated there is no funding guarantee associated with the agreement, it is more of a

strategic partnership. There is a five-year strategic plan for the entire Tourism Development program, including capital projects, product development, and events.

Committee Member Klapp asked what the next step is in regard to this recommendation. Acting City Auditor Brent Stockwell stated within every audit there is an action plan, with dates for achieving those action plan items.

Financial Services General Manager Scott McCarty noted that the CVB contract is set for Council action on June 16th. He suggested it would be appropriate for the City Council to consider asking staff to extend this agreement at that time.

Chair Littlefield indicated this would be a policy question, and not an audit question. Revamping the CVB contract should not have been in the action plan. Ms. Gilbride agreed the current contract is not a violation of any criteria. This was more of a recommendation regarding good business practices.

4. Discussion and Possible Direction Regarding Follow-Up Audit Process

Mr. Stockwell stated follow-up on management action plans was historically done by the City Manager's Office; however, auditing standards indicate an expectation that the auditor does the follow-up on audit report recommendations.

Mr. Stockwell noted the City will be going through its peer review the first week of June, and follow-up procedures was an area for improvement from the prior peer review.

Ms. Gurtler presented a summary regarding the follow-up audit process, and indicated the Audit Department is proposing a management action plan follow-up program. All action plans agreed to by management would be input into a database, and an annual report regarding the status of those action plans would be generated. The Audit Department would follow up to ensure that each action plan was either implemented or in progress. An annual status report would then be issued.

Generally accepted government auditing standards recommend follow-ups on identified issues. The Audit Department currently only does follow-ups if the same subject matter is audited.

Committee Member Klapp said follow-up is imperative, or the audit ends up being irrelevant.

Mr. Stockwell said a follow-up process gives an assurance to the Audit Committee and the City Council that the Audit Department has ensured compliance with the recommended action plan.

Chair Littlefield suggested the Audit Committee be given a status update on all action plan follow-ups at each meeting. Ms. Gurtler indicated this could be done more often than annually; however, due to the time constraints, it is easier to present the report annually. Mr. Stockwell stated staff did consider providing the Committee with a monthly update, but there are some benefits and efficiencies of doing the report on an annual basis.

Mr. Stockwell said an auditor would be assigned to the follow-up audit process, who would present a report to the Committee by September each year regarding the previous year's

action plans. Producing a report for the Committee on a monthly basis would create additional work for staff and management on a monthly basis.

Committee Member Klapp agreed that an annual report is not timely enough, and suggested that a quarterly report be provided.

In response to an inquiry by Chair Littlefield, Mr. Stockwell indicated under the proposed plan, management would be contacted at the beginning of each fiscal year and asked for a status update regarding the action plan. Currently, management reports the completion of action items to the City Manager's Office. The proposed plan would require that they report to the City Auditor's Office.

Chair Littlefield suggested adding a requirement that when the responsible party follows up and completes an item, the report be sent to the Audit Department as well. The Audit Department can then prioritize the item and follow up accordingly. Most of the items will then be removed from further follow-up, and each month the Audit Committee could review the exceptions that are left. He asked staff to discuss this with the City Attorney for possible Code change requirements.

Mr. Stockwell asked how the Committee would like staff to handle the backlog. Chair Littlefield suggested that going forward; everything should be included on the report. Past high priority items should also be identified and included. Mr. Stockwell indicated staff will do additional research on past high priority items and present the information to the Committee at its next meeting.

5. Discussion and Committee Recommendation Regarding FY 2009/10 Audit Plan

Ms. Gilbride stated the Committee did not recommend any changes at their last meeting, and staff has prepared the Council report for review.

In response to an inquiry by Chair Littlefield, Mr. Stockwell indicated the plan is consistent with the level of staffing the department expects to have. Chair Littlefield noted that in the interviews of potential candidates for the City Auditor's position, it has been made clear that the successful applicant will also be completing audits, and that this is not a "supervisory only" position.

COUNCILWOMAN KLAPP MOVED TO ACCEPT THE FY 2009/10 AUDIT PLAN AS PRESENTED. COUNCILMAN ROBERT LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF TWO (2) TO ZERO (0). VICE MAYOR RON MCCULLAGH ABSENT (RESIGNED FROM AUDIT COMMITTEE).

Mr. Stockwell said he would do one last review of the staff report to ensure it reflects today's discussion regarding the follow-up audits.

Chair Littlefield indicated staff should discuss the follow-up plan with the City Attorney before it is placed on the City Council's agenda in the case that additional corresponding items are necessary.

6. Discussion Regarding Status of Current Audit Progress, Staffing, and Budget

Mr. Stockwell said all audits on the FY 08/09 audit plan are underway. Auditors are very close to completion on the Independent Review of City Court Minimum Accounting Standards, and will be meeting with management later this week. The In-Lieu Parking, Use of Purchase Orders, Water System Security, and Capital Project Change Order audits are all underway. Staff anticipates that some of those audits will not be finalized until the new fiscal year.

7. Discussion and Possible Direction Regarding Distribution of Audit Reports

Mr. Stockwell proposed that audit reports be issued in electronic format via email to the Audit Committee, with copies to the City Council and management and posting to the City website. Two printed copies must be provided to the Library and the Clerk's office for archival purposes. This would save money, yet be just as available to the public. Requests for printed copies would be handled on an as-needed basis. The Committee members agreed that would be more effective.

For more openness and transparency, Mr. Stockwell recommended posting full agenda packets for the Committee meetings on the City's website. In the past, only the agenda has been posted. Chair Littlefield and Committee Member Klapp agreed the entire packet should be posted as quickly as possible.

8. Discussion of Agenda Items for Next Audit Committee Meeting

Mr. Stockwell stated that he anticipated there would be a new audit committee member by the next meeting.

The Independent Review of Minimum Accounting Standards will be on the next agenda. All completed audit reports will also be included for review, in addition to further discussion regarding the follow-up process.

The next meeting will be held Monday, June 22, at 10:00 A.M. No meetings will be held in July, and staff will discuss with the Committee whether an August meeting should be scheduled.

It was discussed that the meeting time and date may have to change if the time does not work for the new committee member.

ADJOURNMENT

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 11:02 A.M.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz